

## Message Text

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FM SECSTATE WASHDC

TO ALL OECD CAPITALS IMMEDIATE

AMEMBASSY ALGIERS IMMEDIATE

AMEMBASSY QUITO IMMEDIATE

AMEMBASSY TEHRAN IMMEDIATE

AMEMBASSY KUWAIT IMMEDIATE

AMEMBASSY TRIPOLI IMMEDIATE

AMEMBASSY LAGOS IMMEDIATE

AMEMBASSY BEIRUT IMMEDIATE

AMEMBASSY JIDDA IMMEDIATE

AMEMBASSY ABU DHABI IMMEDIATE

AMEMBASSY CARACAS IMMEDIATE

AMEMBASSY LIBREVILLE IMMEDIATE

AMEMBASSY JAKARTA IMMEDIATE

ALL DIPLOMATIC MISSIONS BY POUCH

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TOSEC 008

BEIRUT PASS BAGHDAD

KUWAIT PASS DOHA

FOLLOWING SENT SECSTATE WASHDC FROM DEPT OF TREASURY

WASHDC

18 NOV 74 (180434Z NOV 74):

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QUOTE UNCLAS

STATE DEPT PASS TO ALL AMEMBASSYS, CONSULATES AND DIPLOMATIC  
POSTS:

FOLLOWING IS TEXT AS PREPARED FOR DELIVERY OF ADDRESS BY SECRETARY  
SIMON TO NATIONAL FOREIGN TRADE CONVENTION EMBARGOED FOR RELEASE  
NOVEMBER 18, 1974 AT 10:30 A.M. EST.

ADDRESS OF THE HONORABLE WILLIAM E. SIMON

SECRETARY OF THE TREASURY

BEFORE THE 61ST NATIONAL FOREIGN TRADE CONVENTION  
SPONSORED BY THE NATIONAL FOREIGN TRADE COUNCIL, INC.  
AT THE WALDORF-ASTORIA HOTEL, NEW YORK, NEW YORK  
MONDAY, NOVEMBER 18, 1974 AT 10:30 A.M. (EST)

WE MEET TODAY IN SERIOUS TIMES -- TIMES THAT DEMAND  
PLAIN SPEAKING -- AND I INTEND TO SPEAK PLAINLY AND BLUNTLY.

AS ALL OF YOU KNOW, THE POLICIES OF THE OIL CARTEL NOW  
POSE A FUNDAMENTAL CHALLENGE TO THE ECONOMIC AND POLITICAL  
STRUCTURE WHICH HAS SERVED THE INTERNATIONAL COMMUNITY FOR  
A QUARTER OF A CENTURY. SOME BELIEVE THE WORLD CONFRONTS  
THE GREATEST ECONOMIC CRISIS SINCE THE EARLY POSTWAR YEARS.  
YET, AS PRESIDENT EISENHOWER ONCE OBSERVED, A CRISIS NEED  
NOT STAMPEDE MEN INTO HEADLONG PANIC. "A CRISIS," HE SAID,  
"IS ALSO THE SHARPEST GOAD TO THE CREATIVE ENERGIES OF MEN,  
PARTICULARLY WHEN THEY RECOGNIZE IT AS A CHALLENGE TO THEIR  
EVERY RESOURCE, AND MOVE TO MEET IT IN FAITH, IN THOUGHT,  
AND IN COURAGE."

THAT WAS A LESSON THE LEADERS OF THE EARLY POSTWAR  
YEARS HAD ALREADY LEARNED, AND THEY APPLIED IT WELL. THEIR  
VISION AND THEIR WORK LAID THE FOUNDATIONS FOR A PERIOD OF  
UNPRECEDENTED GROWTH AND PROGRESS, NOT ONLY AMONG THE  
INDUSTRIALIZED NATIONS BUT AMONG THE NEWLY DEVELOPING  
NATIONS AS WELL.

TODAY, THE VISION AND CREATIVE ENERGIES -- AND INDEED,  
THE PRINCIPLES -- OF THOSE EARLIER YEARS ARE NEEDED ONCE  
AGAIN. WITH CONSUMERS, WE MUST SEEK A NEW UNITY OF PURPOSE  
AND STRENGTH OF COMMON EFFORT. WITH PRODUCERS, WE MUST  
SEEK TO RESOLVE OUR DIFFERENCES THROUGH MUTUAL UNDERSTANDING  
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AND COOPERATION. AND WITH DEVELOPING NATIONS, WE MUST CONTINUE TO  
PROVIDE HELP AND ASSISTANCE SO THAT THEY MAY FULFILL  
THEIR DREAMS OF ADVANCEMENT. THIS IS THE BASIS UPON  
WHICH THE UNITED STATES IS MOVING FORWARD TODAY IN BOTH ITS  
TRADE AND ENERGY POLICIES.  
NEED FOR SWIFT ACTION ON THE TRADE BILL

WITH TRADE DEFICITS MOUNTING IN ALMOST EVERY NATION  
OUTSIDE THE OIL PRODUCING AND EXPORTING COUNTRIES BLOC,

GOVERNMENTS IN MANY COUNTRIES ARE INCREASINGLY TEMPTED TO RESTRICT TRADE IN THE NAME OF SHORTAGE, SURPLUS, INFLATION OR UNEMPLOYMENT. AS WE HAVE LEARNED ONCE BEFORE IN THIS CENTURY, HOWEVER, BEGGAR-THY-NEIGHBOR POLICIES BY ONE PARTY ARE ULTIMATELY DESTRUCTIVE FOR ALL. THIS IS NOT A TIME FOR UNCONSTRAINED BILATERALISM, FOR MONOPOLISTIC RESTRICTION ON SUPPLY, OR FOR OTHER ADMINISTRATIVE ARRANGEMENTS WHICH DISTORT NORMAL PATTERNS OF TRADE AND INVESTMENT. THE SOLUTIONS TO THE PROBLEMS OF AN INTERDEPENDENT WORLD LIE IN MORE INTERDEPENDENCE, NOT LESS. AN EXPANDING WORLD ECONOMY WITH REASONABLY STABLE PRICES IS ESSENTIAL TO THE POLITICAL, SOCIAL AND ECONOMIC INTERESTS OF ALL NATIONS. THIS CAN ONLY BE ACHIEVED IF CONDITIONS ARE ESTABLISHED WHICH PERMIT FOREIGN TRADE AND INVESTMENT TO PLAY THEIR HISTORICAL ROLE AS ENGINES OF ECONOMIC PROGRESS.

NEGOTIATIONS ON TRADE AND TRADE RELATIONS WERE NEVER MORE APPROPRIATE OR TIMELY. IN THIS REGARD, WE PLACE GREAT IMPORTANCE UPON ENACTMENT OF THE TRADE REFORM BILL BEFORE THE END OF THIS YEAR. A CLEAN ACT, UNENCUMBERED BY EXTRANEOUS AMENDMENTS, IS A MATTER OF URGENT PRIORITY TO THE PRESIDENT. ONLY WITH THIS LEGISLATIVE MANDATE CAN OUR NEGOTIATORS BE EFFECTIVE IN SEEKING AN OPEN AND FLEXIBLE WORLD TRADING SYSTEM, AND ONLY WITH THE FULL PARTICIPATION OF THE UNITED STATES CAN WE SOLVE COMMON ECONOMIC PROBLEMS.

PREVIOUS INTERNATIONAL TRADE NEGOTIATIONS HAVE FOCUSED ON THE PROBLEM OF OPENING NATIONAL MARKETS TO THE EXPORTS OF OTHER COUNTRIES. IT IS ESSENTIAL THAT THE MULTILATERAL TRADE NEGOTIATIONS IN TOKYO NOW TURN TO THE OTHER SIDE OF THE QUESTION, FINDING MEANS TO ENSURE INTERNATIONAL ACCESS TO FOOD AND RAW MATERIAL SUPPLIES.

#### THE CHALLENGE OF THE OPEC BLOC

THIS PROBLEM OF GAINING ACCESS TO SUPPLIES HAS BEEN  
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POINTEDLY RAISED, OF COURSE, BY ACTIONS OF THE OIL EXPORTING NATIONS BELONGING TO THE OPEC BLOC -- FIRST BY THE EMBARGO LAST FALL, THEN BY A QUADRUPLING OF PRICES, AND FINALLY BY THEIR PRODUCTION CUTBACKS DESIGNED TO MAINTAIN PRICES.

BEFORE THE PRICE INCREASE IN OCTOBER OF LAST YEAR, THE AVERAGE PAYMENT TO PRODUCING COUNTRIES FOR A BARREL OF OIL -- USING SAUDI ARABIAN LIGHT CRUDE AS A BENCHMARK -- WAS LESS THAN \$2; TODAY IT IS APPROXIMATELY \$10. PAYMENTS TO OPEC NATIONS FOR OIL, AMOUNTING TO \$22 BILLION IN 1973, ARE EXPECTED TO EXCEED \$85 BILLION THIS YEAR AND AS OF THIS YEAR ARE RUNNING AT AN ANNUAL RATE OF ABOUT \$100 BILLION. THIS YEAR ALONE THE OPEC NATIONS WILL HAVE \$60 BILLION IN EARNINGS WHICH THEY DO NOT SPEND ON IMPORTS OF GOODS AND SERVICES. A RECEIPT FOR THE OPEC GROUP IS OBVIOUSLY A PAYMENT FOR THE OIL IMPORTERS, AND A SURPLUS FOR OPEC IS A

DEFICIT FOR THE REST OF THE WORLD. ONLY BY PILING UP DEBT TO THE OPEC NATIONS CAN THE IMPORTERS, AS A GROUP, PAY FOR THE OIL.

THE COSTS IMPOSED ON THE WORLD ECONOMY BY EXORBITANT OIL PRICES ARE BOTH SEVERE AND EXTENSIVE. THEY MAKE OUR BATTLE AGAINST INFLATION MORE DIFFICULT AND THE INFLATION ITSELF MORE VIRULENT. AS THE WORLD SHIFTS RESOURCES TO ADAPT TO A NEW ENERGY BALANCE, THERE WILL ALSO BE SERIOUS FRICTIONS AND UNAVOIDABLE COSTS OF STRUCTURAL ADJUSTMENT. RELUCTANCE TO BORROW YEAR AFTER YEAR TO FINANCE OIL PURCHASES WILL CAUSE NATIONS TO MAINTAIN LOWER LEVELS OF ECONOMIC ACTIVITY AND THERE WILL BE SLOWER ECONOMIC GROWTH. THERE IS A CLEAR DANGER THAT SOME COUNTRIES MIGHT TAKE INAPPROPRIATE OR DISRUPTIVE ACTIONS, WITH THE RISK OF RETALIATION AND RESORT TO COMPETITIVE RESTRICTIONS. AT SOME TIME, FURTHERMORE, REAL RESOURCES WILL HAVE TO BE TRANSFERRED TO OPEC COUNTRIES TO PAY FOR ACCUMULATED DEBT. THE DIRECT IMPACT WILL NOT BE EQUAL FOR ALL COUNTRIES -- BUT DIRECTLY OR INDIRECTLY, ALL COUNTRIES WILL FIND THEIR HOPES FOR PROSPERITY DIMMED. I CAN THINK OF NO SINGLE CHANGE THAT WOULD MORE IMPROVE THE OUTLOOK FOR THE WORLD ECONOMY THAN A SUBSTANTIAL DECREASE IN THE PRICE OF OIL. AND I CAN CONCEIVE OF NO DEVELOPMENT MORE ESSENTIAL TO THE PRESERVATION OF OUR INTERNATIONAL TRADING SYSTEM.

WHY OIL PRICES MUST EVENTUALLY FALL  
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THE PRODUCING NATIONS ARE AWARE THAT OIL IS NOT IMMUNE TO THE FORCES OF SUPPLY AND DEMAND. THE SHARP JUMP IN PRICES HAS ALREADY RESULTED IN REDUCED OIL CONSUMPTION AROUND THE WORLD -- AND AS THE PASSAGE OF TIME PERMITS FURTHER ADJUSTMENTS, SUCH REDUCTIONS WILL BE FAR GREATER. IN THE OIL IMPORTING COUNTRIES OF THE NON-COMMUNIST WORLD, CONSUMPTION IS PROJECTED TO DECLINE FROM THE 1973 LEVEL OF 48 MILLION BARRELS PER DAY TO ABOUT 46-1/2 MILLION BARRELS PER DAY THIS YEAR. WHEN IT BECAME EVIDENT THAT CONSUMPTION WAS DECLINING, A NUMBER OF OPEC COUNTRIES CUT THEIR OUTPUT, NOT THEIR PRICE. PRIOR TO THE EMBARGO LAST YEAR, OPEC SPARE CAPACITY WAS ON THE ORDER OF 1-1/2 MILLION BARRELS PER DAY. NOW THEY HAVE UNUTILIZED CAPACITY OF NEARLY 8 MILLION BARRELS A DAY. EVEN DURING THEIR OIL EMBARGO, EXCESS CAPACITY DID NOT REACH THIS LEVEL. INEVITABLY, IF THAT EXCESS CAPACITY GROWS, THERE WILL BE INCREASING PRESSURES FOR LOWER PRICES.

IN THE FACE OF HIGH PRICES, CONSUMERS ARE ALSO ACCELERATING DEVELOPMENT OF THEIR OWN SOURCES OF ENERGY WHICH, IN TIME, WILL COST THEM SIGNIFICANTLY LESS THAN THE CURRENT PRICE OF OPEC OIL. IF THE OPEC NATIONS PERSIST IN CUTTING BACK OUTPUT IN ORDER TO MAINTAIN PRICE, THEY WILL FIND THAT BOTH THEIR MARKET AND THEIR INCOME HAVE BEEN

DRASTICALLY ERODED. TO ME, THE QUESTION IS NOT WHETHER OIL PRICES WILL FALL BUT WHEN THEY WILL FALL.

I KNOW THERE ARE ENERGY DOOMSAYERS IN THE WORLD WHO BELIEVE THAT THE WORLD IS ABOUT TO RUN OUT OF OIL. THOSE PEOPLE ARE DEAD WRONG. FIRST OF ALL, MANY EXPERTS BELIEVE THAT IN THE MIDDLE EAST ITSELF, PROVEN RESERVES OF NEARLY 400 BILLION BARRELS OF OIL ARE MATCHED BY ADDITIONAL RESERVES AT LEAST EQUAL IN AMOUNT. NOR ARE THE WORLD'S ENERGY CONSUMERS LOCKED IN AN OPEC VISE. THE WORLD'S OIL AND ENERGY RESOURCES OUTSIDE THE OPEC NATIONS ARE EVEN LARGER THAN INSIDE. HERE IN THE UNITED STATES, OUR OIL PRODUCTION POTENTIAL IS ENORMOUS FROM NEW SOURCES OFF OUR SHORES AND IN THE ARCTIC AND FROM OLDER SOURCES THROUGH IMPROVED AND MORE INTENSIVE MATHODS OF RECOVERY. AND OTHER TRADITIONAL ENERGY SOURCES -- NATURAL GAS, COAL AND NUCLEAR POWER -- WILL BECOME INCREASINGLY IMPORTANT AS MARKET INCENTIVES MOVE OUR POTENTIAL INTO PRODUCTION. WAITING IN THE WINGS, NEW SOURCES OF ENERGY WILL BE BROUGHT FORTH BY TECHNOLOGICAL PROGRESS AND ECONOMIC INCENTIVES -- THE SAME PROCESS BY WHICH OUR UNCLASSIFIED

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ENERGY RESOURCES HAVE ALWAYS BEEN DEVELOPED.

REALISTICALLY, SOME POTENTIAL SOURCES OF ENERGY WILL REQUIRE PASSAGE OF TIME BEFORE THEY RESULT IN SUBSTANTIAL PRODUCTION. BUT THE OIL MARKET ITSELF IS ALREADY IN THE PROCESS OF BEING TRANSFORMED. IN THE PAST YEAR ALONE 26 SIGNIFICANT, NEW OIL DISCOVERIES HAVE BEEN REPORTED. AT LEAST 30 BILLION BARRELS OF OIL HAVE BEEN ADDED TO PROVEN RESERVES OUTSIDE THE OPEC COUNTRIES -- AN INCREASE OF 25 PERCENT. PROVEN NORTH SEA RESERVES HAVE DOUBLED SINCE LAST FALL; MEXICO HAS DISCOVERED ENORMOUS NEW FIELDS; EVEN CHINA HAS ANNOUNCED FINDS THAT ALLOW IT TO BECOME A SIGNIFICANT OIL EXPORTER. OIL HAS ALSO BEEN FOUND IN COMMERCIAL QUANTITIES IN GUATEMALA, THE PERU-AMAZON BASIN, THE TIERRA DEL FUEGO REGION OF CHILE AND ARGENTINA, GABON, ZAIRE, CABINDA, ANGOLA, TUNISIA, INDIA, BANGLADESH, BURMA, MALAYSIA, BRUNEI, THAILAND, SOUTH VIETNAM, TAIWAN, AND EGYPT. AND ALL THESE DISCOVERIES HAVE TAKEN PLACE IN JUST ONE YEAR.

ALTOGETHER THESE FINDS OUTSIDE OPEC HAVE AN ESTIMATED PRODUCTION POTENTIAL OF 13 MILLION BARRELS PER DAY BY 1980 -- ALL OF WHICH REDUCE OPEC'S POTENTIAL MARKET. AND THIS DOESN'T EVEN INCLUDE THE OIL WHICH WILL BE FLOWING FROM ALASKA AND OUR OUTER CONTINENTAL SHELF.

WE DO HAVE AN ENERGY CRISIS, BUT IT'S CLEARLY SOLVABLE. THE OPEC NATIONS, BY STRINGENTLY LIMITING THE RATE AT WHICH THEIR OIL IS FLOWING, ARE INEVITABLY CREATING THE CONDITIONS UNDER WHICH FLOODS OF ENERGY FROM OTHER SOURCES WILL BE FORTHCOMING -- AND FORTHCOMING AT PRICES WELL BELOW CURRENT LEVELS.

THERE IS NO JUSTIFICATION TODAY FOR THE PRESENT PRICE

OF OIL. IT BEARS NO RELATIONSHIP TO THE COSTS OF PRODUCTION. THE CONTENTION BY SOME OPEC MEMBERS THAT THE INCREASE WAS REQUIRED IN ORDER TO KEEP PACE WITH THE RISE IN PRICE OF OTHER COMMODITIES IS JUST NOT TRUE. A BARREL OF OIL TODAY BUYS IN IMPORTS SOME FIVE TIMES WHAT IT DID TWO DECADES AGO AND FOUR TIMES WHAT IT BOUGHT AS RECENTLY AS LAST SEPTEMBER.

LET US ALSO BE CLEAR THAT WE ARE NOT FACED WITH A CASE OF PRODUCING COMPANIES RIGGING THE MARKETS. PROFITS OF THE OIL COMPANIES HAVE INCREASED, BUT THIS IS LARGELY A SHORT-RUN PHENOMENON RESULTING FROM REVALUATION OF INVENTORIES, PROFITS IN COLLATERAL ACTIVITIES SUCH AS CHEMICALS AND TRANSPORTATION, AND OTHER FACTORS. CERTAINLY THE OIL COMPANIES

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WOULD NOT CONSPIRE TO ESCALATE THE REVENUES OF THE OPEC COUNTRIES SO THAT THE HOST COUNTRIES WOULD THEN TAKE OVER THEIR INDUSTRY. OIL IS NOW OVER-PRICED FOR ONE REASON AND ONE REASON ONLY: BECAUSE A SMALL GROUP OF COUNTRIES HAVE JOINED TOGETHER TO MANIPULATE THE PRICE.

#### SECURING COOPERATION AMONG CONSUMER NATIONS

IT HAS BEEN OUR HOPE THAT THESE NATIONS WOULD RECOGNIZE THAT THEIR POLICIES ARE IN NEITHER THEIR OWN INTERESTS NOR IN THE INTERESTS OF THE WORLD. THEIR HOPES AS WELL AS OURS LIE IN THE RESUMPTION OF INTERNATIONAL TRADE ON REASONABLE TERMS. UNTIL NOW, HOWEVER, OUR ARGUMENTS HAVE FALLEN ON SEEMINGLY DEAF EARS. THE UNITED STATES HAS LONG RECOGNIZED THAT LOGIC AND MODERATION MIGHT NOT PREVAIL, AND FOR THAT REASON, OVER THE PAST YEAR AND A HALF, WE HAVE BEEN QUIETLY BUT FIRMLY LAYING THE GROUNDWORK FOR A MORE EFFECTIVE RESPONSE TO THIS CHALLENGE BY THE MAJOR CONSUMER NATIONS.

A CENTRAL THRUST OF OUR POLICY HAS BEEN TO ACHIEVE GREATER COOPERATION AMONG CONSUMER NATIONS. IN PURSUIT OF THAT GOAL, LITERALLY HUNDREDS OF HOURS HAVE BEEN DEVOTED TO PRIVATE AND PUBLIC DIPLOMACY BY THE HIGHEST-RANKING OFFICIALS OF OUR GOVERNMENT. OUR RECORD IS CLEAR:

- IN APRIL OF 1973, PRESIDENT NIXON WARNED THAT ENERGY WAS BECOMING A MAJOR PROBLEM AND THAT CLOSE COOPERATION WAS NEEDED BETWEEN THE UNITED STATES, WESTERN EUROPE AND JAPAN.
- IN FEBRUARY OF 1974, AT OUR INVITATION, A DOZEN MAJOR CONSUMING NATIONS GATHERED HERE FOR THE WASHINGTON ENERGY CONFERENCE. I SUBMITTED A DETAILED PAPER AT THAT TIME ON THE FINANCIAL AND ECONOMIC ASPECTS OF INTERNATIONAL OIL PRICES AND ON THE NEED FOR CONSERVATION AND EXPANDED PRODUCTION. AT THAT CONFERENCE, THE INTERNATIONAL

ENERGY COORDINATING GROUP WAS ESTABLISHED,  
PROVIDING ESSENTIAL MACHINERY FOR  
CONSULTATION AND NEGOTIATIONS AMONG  
CONSUMING NATIONS.

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-- AFTER EXTENDED DISCUSSIONS BY MEMBERS OF  
THAT COORDINATING GROUP, AN AGREEMENT  
WAS REACHED IN BRUSSELS THIS SEPTEMBER  
FOR AN UNPRECEDENTED PLAN TO SHARE  
ENERGY RESOURCES AMONG CONSUMER NATIONS  
DURING TIMES OF EMERGENCY. THE BRUSSELS  
AGREEMENT REPRESENTS A MAJOR BREAKTHROUGH,  
FOR IT WILL PROVIDE MUTUAL PROTECTION IN  
TIME OF NEED AND IT WAS REACHED AFTER  
PREVIOUS ATTEMPTS HAD FAILED. THE BRUSSELS  
MEETING ALSO PRODUCED GUIDELINES FOR  
COOPERATIVE LONG-RUN EFFORTS IN ENERGY  
CONSERVATION, PRODUCTION, AND RESEARCH AND  
DEVELOPMENT, AND LED TO THE FORMATION OF  
A NEW ORGANIZATION ASSOCIATED WITH THE  
OECD TO CARRY OUT THIS PROGRAM, THE INTER-  
NATIONAL ENERGY AGENCY. THE GOVERNING  
BOARD OF THIS NEW AGENCY IS HOLDING ITS  
FIRST MEETING TODAY. THESE ARE ALL SOLID  
ACHIEVEMENTS, BUT NOW WE MUST GO FURTHER.

THE NEW PROPOSALS BY THE UNITED STATES

IN MANY MEETINGS WITH SENIOR OFFICIALS OF OTHER NATIONS  
OVER THE COURSE OF THE PAST TEN MONTHS, SECRETARY KISSINGER  
AND I AND OUR SENIOR DEPUTIES HAVE DISCUSSED OUR VIEWS OF  
THE CURRENT WORLD ECONOMIC SITUATION AND LISTENED TO THEIRS.  
WE HAVE CONTINUALLY STRESSED THAT ENERGY, ECONOMIC AND  
FINANCIAL PROBLEMS CANNOT BE SEPARATED AND THAT NEW INITIATIVES  
IN ONE AREA MUST BE LINKED TO NEW INITIATIVES IN THE OTHER  
AREAS. IN THE PAST SEVERAL WEEKS, WE HAVE PRESENTED A COMPREHENSIVE  
SET OF PROPOSALS IN PRIVATE TALKS WITH A LIMITED  
NUMBER OF MAJOR INDUSTRIAL COUNTRIES, AND THE DISCUSSIONS THAT  
FOLLOWED HAVE BEEN VERY INTENSIVE AND CONSTRUCTIVE. RECENTLY,  
FEELING THAT THE AGREEMENTS REACHED IN BRUSSELS GAVE US SOLID  
FOUNDATIONS UPON WHICH TO BUILD, PRESIDENT FORD DIRECTED  
THAT THE UNITED STATES SHOULD FINALLY MAKE A PUBLIC PRESENTATION  
OF ITS PROPOSALS. THAT WAS THE BASIS OF DR KISSINGER'S SPEECH  
IN CHICAGO LAST THURSDAY NIGHT, WHEN HE OUTLINED THE GLOBAL  
ASPECTS OF OUR POSITION, AND MY TALK HERE TODAY, IN WHICH I  
WILL PRESENT THE FINANCIAL ASPECTS OF OUR PROPOSALS IN  
GREATER DETAIL.

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THE ESSENCE OF THE UNITED STATES POSITION CAN BE  
SUCCINCTLY DESCRIBED:

- THE PRICE OF OIL ITSELF, NOT ITS FINANCIAL  
REPERCUSSIONS, IS THE REAL SOURCE OF TROUBLE  
IN THE WORLD ECONOMY.
- TO HELP BRING ABOUT LOWER OIL PRICES, AND  
TO REDUCE THE ECONOMIC BURDEN OF OIL  
IMPORTS, MAJOR CONSUMING NATIONS SHOULD  
WORK TOGETHER TO ACHIEVE SIGNIFICANT  
REDUCTIONS IN THEIR IMPORTS OF OPEC OIL.
- THEY SHOULD ALSO COORDINATE POLICIES AND  
POOL THEIR TECHNICAL RESOURCES TO INCREASE  
ENERGY PRODUCTION WITHIN THEIR OWN NATIONS.
- IMF RESOURCES SHOULD BE MORE FULLY MOBILIZED  
FOR ALL ITS MEMBER NATIONS.
- A MAJOR, NEW FINANCIAL MECHANISM SHOULD BE  
SET UP IN ASSOCIATION WITH THE BCD TO  
PROVIDE STAND-BY FINANCIAL SUPPORT IN CASE  
ANY OF THE PARTICIPATING COUNTRIES FIND  
THEMSELVES IN ECONOMIC TROUBLE AFTER HAVING  
MADE REASONABLE EFFORTS

N THEIR OWN PART.

- CONSIDERATION SHOULD ALSO BE GIVEN TO SETTING  
UP A SPECIAL TRUST FUND MANAGED BY THE IMF  
TO HELD DEVELOPING NATIONS THAT ARE SUFFERING  
THE MOST AND REQUIRE FINANCING ON CONCESSIONAL  
TERMS.
- FINALLY, SERIOUS PREPARATIONS SHOULD BE MADE  
FOR AN EVENTUAL DIALOGUE BETWEEN A UNITED  
CONSUMER GROUP AND THE PRODUCER NATIONS.

OUR IDEAS CALL FOR A FORTHRIGHT, EARNEST EFFORT BY THE  
WORLD'S MAJOR INDUSTRIAL COUNTRIES TO RESOLVE THE INTERNATIONAL  
ENERGY CRISIS. TO IMPLEMENT SUCH A FAR-REACHING INITIATIVE  
WILL REQUIRE FURTHER WEEKS OF DIPLOMACY WITH OUR ALLIES AND  
FRIENDS. WE WILL NEED THE COOPERATION OF THE CONGRESS. AND  
WE WILL NEED YOUR SUPPORT AND THE SUPPORT OF ALL OTHER  
AMERICANS.

REDUCING OIL IMPORTS

LET US LOOK MORE CLOSELY NOW AT THESE PROPOSALS. ALL  
MAJOR OIL CONSUMING COUNTRIES HAVE ADOPTED NATIONAL PROGRAMS  
OF ENERGY CONSERVATION TO REDUCE OIL IMPORTS.

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PRESIDENT

FORD HAS ANNOUNCED A U. S. PROGRAM TO REDUCE OIL IMPORTS BY  
ONE MILLION BARRELS A DAY BELOW WHAT THEY OTHERWISE WOULD



HAVE BEEN BY THE END OF 1975. THE PRESIDENT HAS MADE IT CLEAR THAT WE WILL MEET THIS TARGET AND THAT WHATEVER STEPS ARE NECESSARY WILL BE TAKEN. THE FRENCH GOVERNMENT ANNOUNCED SOME WEEKS AGO THAT IT WOULD TAKE ACTIONS TO LIMIT 1975 OIL IMPORTS IN FRANCE TO A QUANTITY COSTING NO MORE THAN IMPORTS IN 1974. JUST LAST WEEK, THE BRITISH GOVERNMENT ANNOUNCED NEW TAXES ON GASOLINE IN ORDER TO REDUCE OIL IMPORTS. OTHER GOVERNMENTS HAVE ADOPTED TARGETS, GOALS AND POLICIES DIFFERING ACCORDING TO NATIONAL CIRCUMSTANCES, BUT ALL DIRECTED TOWARDS REDUCING OIL IMPORTS.

THESE FIRST STEPS TOWARD CONSERVATION COULD BE STRENGTHENED IF THE MAJOR INDUSTRIAL NATIONS AS A GROUP WERE TO PLACE ON THE TABLE THEIR PROPOSED CONSERVATION PROGRAMS AND THEIR PROPOSED PROGRAMS FOR EXPANDING ENERGY PRODUCTION SO THAT BOTH COULD BE INTERNATIONALLY REVIEWED AND DISCUSSED TO DETERMINE THEIR OVERALL ADEQUACY AND THE EQUITS WITH WHICH THE EFFORT IS BEING SHARED AMONG NATIONS.

WE BELIEVE THAT EFFECTIVE NATIONAL PROGRAMS OF CONSERVATION COULD ACHIEVE A REDUCTION IN IMPORTS OF THE MAJOR INDUSTRIAL COUNTRIES OF THE WORLD BY THE END OF 1975 OF AT LEAST 3 MILLION BARRELS A DAY--WITHOUT UNDULY DAMPENING ECONOMIC ACTIVITY AND PERFORMANCE. SUCH A REDUCTION IN IMPORTS, WERE IT TO BE AGREED UPON AND IMPLEMENTED, WOULD RESULT IN IMPORT SAVINGS AT AN ANNUAL RATE OF SOME \$11 BILLION AT PRESENT PRICE LEVELS, AND WOULD PROVIDE STRONG MARKETPLACE PRESSURES TO BRING DOWN THE PRICE OF OIL. THE IMPACT OF THE EFFORTS OF EACH OF US CAN BE MULTIPLIED MANY TIMES BY THE EFFORTS OF ALL OF US. I WOULD BE LESS THAN CANDID IF I WERE TO LEAVE THE IMPRESSION THAT ACHIEVING THIS GOAL WILL BE EASY. BUT I WOULD BE LESS THAN HONEST IF I WERE TO PRETEND THAT WHAT IS EASY WILL BE EFFECTIVE.

IMMEDIATE EFFORTS TO REDUCE OIL IMPORTS ARE ESSENTIAL. BUT EQUALLY ESSENTIAL ARE THE EFFORTS NEEDED TO PROMOTE ENERGY CONSERVATION AND PRODUCTION IN THE LONGER RUN. FORTUNATELY, WE NOW HAVE, IN THE NEW INTERNATIONAL ENERGY AGENCY A FORUM FOR DEVELOPING AND COORDINATING NEW NATIONAL AND INTERNATIONAL POLICIES TO ACHIEVE THESE ENDS. IT IS NO SECRET THAT ADMINISTRATIVE AND POLICY BARRIERS TO CONSERVATION AND TO

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INCREASED PRODUCTION STILL EXIST IN ALMOST ALL COUNTRIES--INCLUDING THE UNITED STATES. IT IS ALSO NO SECRET THAT INTERNATIONAL EFFORTS TO ACHIEVE THESE SAME OBJECTIVES FACE MANY DIFFICULTIES. BUT IT IS ESSENTIAL THAT WE PUSH AHEAD.

A BASIC REQUIREMENT IS TO DEVELOP IN THE IEA A COMMON LONGER-TERM TARGET FOR REDUCING THE RATE OF GROWTH OF ENERGY CONSUMPTION AND OIL IMPORTS. SUCH A LONGER-RUN OBJECTIVE WILL BE HELPFUL TO GOVERNMENTS AS NATIONAL POLICY DECISIONS ARE MADE, AND WILL ALSO SERVE TO DEMONSTRATE TO OPEC NATIONS WHERE THEIR PRESENT COURSE IS LEADING.

WE SHOULD ALSO ESTABLISH A REVIEW PROCESS WITHIN THE INTERNATIONAL ENERGY AGENCY OF THE POLICIES OF THE PARTICIPATING COUNTRIES FOR DEVELOPING NEW ENERGY SOURCES. OUT OF THIS PROCESS SHOULD EVOLVE NOT ONLY USEFUL GUIDING PRINCIPLES FOR ENERGY DEVELOPMENT BUT AN INCREASED AWARENESS AMONG ALL MEMBERS OF THE REQUIREMENTS OF SUCCESSFUL POLICIES IN THIS FIELD.

ANOTHER COMPLEX PROBLEM WITH WHICH WE MUST COME TO GRIPS IN THE IEA IS THE SO-CALLED "DOWNSIDE RISK" PROBLEM. WHICH ENERGY RESOURCES WILL BE DEVELOPED IN THE FUTURE AND AT WHAT RATES WILL DEPEND ON INVESTOR ESTIMATES OF THE PROSPECTIVE PRICE OF OIL. PROSPECTIVE INVESTORS IN ENERGY PROJECTS CAN BE EXPECTED TO BE CAUTIOUS IN A SITUATION IN WHICH THE PRICE OF OIL COULD PLUNGE AS EASILY AS IT HAS SOARED. THUS, WE MUST BEGIN TO CONSIDER METHODS OF INTERNATIONAL COOPERATION TO PROVIDE INVESTORS AN APPROPRIATE DEGREE OF PROTECTION AGAINST SUCH RISKS.

FINALLY, THERE REMAIN UNEXPLOITED OPPORTUNITIES FOR COOPERATION IN ENERGY R&D-- IN NUCLEAR FUSION, COAL TECHNOLOGY, THE USE OF HYDROGEN, AND ENRICHED URANIUM -- AND THE NEW INTERNATIONAL ENERGY AGENCY CAN USEFULLY SERVE TO EXPEDITE AND FACILITATE SUCH COOPERATION IN THESE AND OTHER AREAS.

IN ALL OF THESE AREAS, A COLLECTIVE DETERMINATION TO MOVE FORWARD QUICKLY AND EFFECTIVELY WILL NOT ONLY SERVE TO REDUCE OUR DEPENDENCE ON OIL FROM OPEC NATIONS, BUT ALSO TO ACCELERATE THE PROCESS BY WHICH THE PRICE OF OPEC OIL IS BROUGHT DOWN TO ACCEPTABLE LEVELS.

#### PROVIDING FINANCIAL SECURITY

AT THE SAME TIME, COUNTRIES WHICH AGREE TO  
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#### ACT TOGETHER

IN ENERGY NEED TO BE CONFIDENT THAT IF A FINANCIAL EMERGENCY ARISES, CREDIT WILL BE AVAILABLE TO THEM ON REASONABLE TERMS. THEY COULD BE GIVEN SUCH CONFIDENCE THROUGH A NEW SUPPLEMENTARY FINANCIAL MECHANISM WHICH THE MAJOR INDUSTRIAL NATIONS COULD THEMSELVES ESTABLISH. AMONG THEM THEY WILL RECEIVE THE CAPITAL REPRESENTED BY THE OPEC SURPLUSES. THE OPEC COUNTRIES DO NOT HAVE TO BE OFFERED SPECIAL GUARANTEES, ABOVE MARKET RATES OF RETURN, OR VALUE INDEXING SCHEMES. THEY CAN PLACE THEIR MONEY WHERE THEY CHOOSE. ALL THAT IS NEEDED ARE ADEQUATE ARRANGEMENTS-- PRIVATE AND PUBLIC-- TO INSURE THAT FUNDS ARE DISTRIBUTED AMONG THE INDIVIDUAL OIL IMPORTING STATES SO AS TO AVOID UNNECESSARILY STRINGENT ECONOMIC DIFFICULTIES IN PARTICULAR COUNTRIES.

EXISTING PRIVATE AND PUBLIC FACILITIES HAVE BEEN DOING THIS JOB OF REDISTRIBUTION IN THE PAST, AND THERE IS NO EVIDENCE THAT THEY CANNOT CONTINUE TO DO THE JOB. THE PROBLEMS OF FINANCING HIGHER OIL BILLS CAN BE MANAGED UNTIL

OIL PRICES COME DOWN-- NOT EASILY, NOT WITHOUT STRAINS, AND NOT WITHOUT EFFORT, BUT THEY CAN BE MANAGED. SUBSTANTIAL VOLUMES OF OPEC FUNDS, PROBABLY \$45 BILLION IN THE FIRST TEN MONTHS OF THIS YEAR, HAVE BEEN INVESTED IN A VARIETY OF WAYS. NEARLY ONE QUARTER OF THESE FUNDS HAVE BEEN INVESTED DIRECTLY IN THE U. S. MARKET AND NEARLY ANOTHER QUARTER IN THE DOMESTIC ASSETS OF OTHER INDUSTRIAL COUNTRIES. THE OPEC COUNTRIES HAVE ALSO LENT DIRECTLY TO OTHER GOVERNMENTS AND TRANSFERRED ADDITIONAL AMOUNTS TO INTERNATIONAL INSTITUTIONS-- FOR EXAMPLE, THE INTERNATIONAL MONETARY FUND'S SPECIAL OIL FACILITY. IN ADDITION, SUBSTANTIAL AMOUNTS HAVE BEEN PLACED IN EURO-CURRENCY MARKETS-- BUT THE TOTAL, LESS THAN 40 PERCENT, IS NOT AS LARGE AS MANY HAVE ASSUMED. FOR BORROWERS, ALL THESE INVESTMENTS REPRESENT POTENTIAL SOURCES OF FUNDS AND PROVIDE A WIDE RANGE OF ALTERNATIVE FINANCING CHANNELS.

WHILE THE INTERNATIONAL FINANCIAL SYSTEM HAS WORKED WELL, WE MUST RECOGNIZE, HOWEVER, THAT INDIVIDUAL COUNTRIES COULD FIND THEMSELVES IN ECONOMIC TROUBLE, WITH NEEDED CREDIT TOO SCARCE OR TOO EXPENSIVE TO PERMIT THEM TO MAINTAIN OPEN ECONOMIES AT APPROPRIATE LEVELS OF ACTIVITY. A SUPPLEMENTARY LOAN FACILITY, ESTABLISHED BY THE MAJOR INDUSTRIAL COUNTRIES ASSOCIATED WITH THE OECD, WOULD PROVIDE THE BACKSTOPPING THAT IS NEEDED TO SUPPLEMENT EXISTING CHANNELS OF FINANCING. THIS IS THE FINANCIAL SAFETY NET THAT THE UNITED STATES IS RECOMMEND-  
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ING.

CERTAIN PRINCIPLES WOULD BE FUNDAMENTAL TO SUCH A MECHANISM:

1. PARTICIPATION SHOULD BE LINKED WITH A COMMITMENT TO COOPERATE IN REDUCING DEPENDENCE ON OIL IMPORTS.
2. PARTICIPANTS WOULD ALSO UNDERTAKE TO FOLLOW

RESPONSIBLE ADJUSTMENT POLICIES AND AVOID RESORTING TO THE USE OF TRADE RESTRICTIVE MEASURES OR OTHER BEGGAR-THY-NEIGHBOR POLICIES.

3. LIKE ANY INSURANCE POLICY, THE FACILITY SHOULD BE LARGE ENOUGH TO DO THE JOB. IT MUST BE CLEAR THAT THE POTENTIAL FOR BORROWING IS ADEQUATE TO MEET THE NEED. WE RECOMMEND A FACILITY WITH TOTAL COMMITMENTS BY ALL MEMBERS OF \$25 BILLION IN 1975. ADDITIONAL FINANCIAL RESOURCES WOULD BE PROVIDED IN SUBSEQUENT YEARS IN CASE OF NEED.

4. THE FACILITY SHOULD SUPPLEMENT PRIVATE MARKET CHANNELS AND OTHER CHANNELS, INCLUDING THE IMF AND OTHER OFFICIAL INSTITUTIONS. IT SHOULD NOT REPLACE THEM. FOR THIS REASON IT SHOULD DO ITS LENDING ON MARKET RELATED TERMS.

5. DECISIONS ON THE PROVISION OF FINANCIAL SUPPORT SHOULD BE MADE BY A WEIGHTED VOTE OF PARTICIPANTS

AND SHOULD BE BASED ON THE OVERALL ECONOMIC POSITION OF THE BORROWER, NOT ON ANY SINGLE CRITERION SUCH AS OIL IMPORT BILLS.

6. WHEN EVER SUPPORT IS PROVIDED BY THE FACILITY, ALL MEMBERS SHOULD SHARE THE CREDIT RISK ON THE BASIS OF THEIR SHARE OF PARTICIPATION.

BEYOND THESE GENERAL PRINCIPLES THERE ARE MANY DETAILS TO BE WORKED OUT AND ON WHICH WE ARE OPEN-MINDED. ONE QUESTION THAT MUST BE ANSWERED IS THE MANNER IN WHICH THE FACILITY WOULD OBTAIN THE FUNDS WITH WHICH TO LEND. AN INDIVIDUAL GOVERNMENT COULD LEND DIRECTLY TO THE NEW FACILITY OR COULD PERMIT THE FACILITY TO GO INTO THE CAPITAL MARKETS OF THE WORLD AND BORROW FUNDS ON THE BASIS OF ITS GUARANTEE.

THERE WOULD APPEAR TO BE A NUMBER OF ADVANTAGES IN HAVING FUNDS PROVIDED TO THE FACILITY THROUGH DIRECT LENDING BY MEMBER GOVERNMENTS RATHER THAN GUARANTEES. TRADITIONALLY, THE LOAN ROUTE IS MORE EFFICIENT AND IT IS CHEAPER. NEVERTHELESS, IT MAY

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BE DESIRABLE IN ESTABLISHING THE FACILITY TO PROVIDE SOME FLEXIBILITY ON THIS SCORE SIMPLY BECAUSE NATIONAL PRACTICES AND LEGISLATIVE REQUIREMENTS VARY WIDELY. WHATEVER MEANS IS CHOSEN, THE UNITED STATES WILL NEED TO OBTAIN ADDITIONAL AUTHORITY FROM THE CONGRESS IN ORDER TO PROCEED.

FOR THE UNITED STATES, PARTICIPATION MIGHT BEST BE ACCOMPLISHED THROUGH THE EXCHANGE STABILIZATION FUND. THIS FUND HAS THE AUTHORITY TO ENGAGE IN INTERNATIONAL LENDING OPERATIONS FOR THE PURPOSE OF STABILIZING THE VALUE OF THE DOLLAR AND THIS WOULD BE A BASIC PURPOSE OF OUR PARTICIPATION IN THE PROPOSED FACILITY.

ARRANGEMENTS FOR ADMINISTRATION OF THE FACILITY WILL ALSO HAVE TO BE NEGOTIATED. OUR INITIAL FEELING IS THAT IT SHOULD BE ASSOCIATED WITH THE OECD IN A MANNER SIMILAR TO THAT OF THE NEW INTERNATIONAL ENERGY AGENCY, AND ADMINISTERED BY ITS OWN GOVERNING BOARD, WHOSE MEMBERS MIGHT BE DRAWN FROM AMONG THE SENIOR FINANCE OFFICIALS OF THE MEMBER COUNTRIES.

THE QUESTION OF SHARES WILL BE AN IMPORTANT ISSUE IN SETTING UP A FACILITY OF THIS NATURE. VARIOUS FACTORS HAVE BEEN MENTIONED THAT MIGHT BE TAKEN INTO ACCOUNT, SUCH AS THE SIZE OF THE OIL IMPORT BILLS OF THE MEMBER STATES, THE RELATIVE VALUE OF GROSS NATIONAL PRODUCT, SHARE IN INTERNATIONAL TRADE, OR SOME COMBINATION OF THESE FACTORS. THE VARIOUS POSSIBILITIES WILL HAVE TO BE CAREFULLY WEIGHED.

IT MAY ALSO BE IMPORTANT TO STATE THAT IN OUR CURRENT THINKING, BORROWING FROM THE FACILITY SHOULD NOT BE RELATED SPECIFICALLY TO IMPORTS OF OIL. "OIL DEFICITS" BECOME INCREASINGLY INDISTINGUISHABLE FROM "NON-OIL" DEFICITS. AND EVEN THE CONCEPT OF BALANCE OF PAYMENTS DEFICITS IS OF LIMITED UTILITY IN THE WORLD WE FACE TODAY. IN OUR VIEW, ACCESS TO THIS FACILITY SHOULD BE BASED ON AN OVERALL JUDGMENT

OF A COUNTRY'S NEEDS TAKEN IN CONJUNCTION WITH ITS RESOURCES, ITS BASIC ECONOMIC POLICIES AND THE ACTIONS IT IS TAKING TO REDUCE DEPENDENCE ON OPEC OIL.

WE HAVE BEEN DISCUSSING THE BROAD OUTLINES OF HOW SUCH A FACILITY MIGHT WORK WITH A NUMBER OF OTHER GOVERNMENTS FOR SEVERAL MONTHS. BOTH MY PERSONAL CONVERSATIONS WITH OTHER FINANCE MINISTERS AND OUR OFFICIAL-LEVEL CONTACTS GIVE ME CONFIDENCE THAT THERE WILL BE SUPPORT FOR THIS GENERAL LINE OF THINKING. WE NOW INTEND TO URGE CONSIDERATION OF THIS IDEA MORE FORMALLY IN OFFICIAL LEVEL DISCUSSIONS IN PARIS THIS

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WEEK. I SHOULD NOTE THAT THE SECRETARY GENERAL OF THE OECD HAS INDEPENDENTLY DEVELOPED SUGGESTIONS FOR A SUPPLEMENTARY FUNDING MECHANISM SIMILAR IN MANY RESPECTS TO THE ONE I HAVE JUST DESCRIBED. HIS IDEAS, WHICH ARE VERY WELCOME, WILL ALSO BE ON THE TABLE AT THE MEETINGS THIS WEEK IN PARIS OF THE OECD WORKING PARTY THREE AND OF THE GROUP OF TEN DEPUTIES.

WE WILL BE PREPARED TO DEVOTE MANY HOURS AND MANY DAYS OF HARD WORK OVER THE NEXT FEW WEEKS TO TRANSLATE THESE BROAD OUTLINES INTO AN OPERATING PROGRAM. WE WILL NEED TO WORK VERY CLOSELY WITH THE AUTHORITIES OF THE IMF AND THE NEWLY ESTABLISHED INTERIM COMMITTEE OF THAT BODY. INTENSIVE CONSULTATIONS WITH OUR CONGRESS WILL ALSO BE UNDERTAKEN, AND I AM SURE THAT OUR PARTNERS IN THIS VENTURE WILL BE CONSULTING INTENSIVELY WITH THEIR LEGISLATURES.

WHAT WE ARE SUGGESTING IS IN NO WAY INTENDED TO REPLACE THE INTERNATIONAL MONETARY FUND AS THE PERMANENT INSTITUTION PROVIDING THE BASIC FINANCIAL SUPPORT FOR A WELL-FUNCTIONING WORLD ECONOMY. THE IMF IS IN A POSITION TO PROVIDE SUBSTANTIAL ADDITIONAL SUPPORT TO ANY OF ITS MEMBERS. IT HAS OVER \$10 BILLION OF CURRENCIES WHICH ARE EFFECTIVELY AVAILABLE AND USEABLE, QUITE APART FROM ITS HOLDINGS OF GOLD. WE ARE PREPARED, IN THE CURRENT REVIEW OF IMF QUOTAS, TO SUPPORT A SUBSTANTIAL INCREASE IN THAT FIGURE. FURTHERMORE, WE ARE PREPARED TO SUPPORT EARLY MEASURES TO INSURE EFFECTIVE MOBILIZATION OF THE RESOURCES THAT THE IMF NOW HAS.

AT THE SAME TIME WE ARE SUGGESTING AN INITIATIVE OUTSIDE THE IMF, IN PART BECAUSE OF THE MAGNITUDE OF THE POSSIBLE TRANSFER REQUIREMENTS AMONG THE MAJOR INDUSTRIAL COUNTRIES AND IN PART BECAUSE THE TERMS AND CONDITIONS OF IMF FINANCIAL OPERATIONS ARE NOT APPROPRIATE TO THE EXCEPTIONAL CIRCUMSTANCES WE NOW FACE. MOREOVER, IT WOULD BE INAPPROPRIATE-- EVEN IF POSSIBLE-- TO INTRODUCE INTO THE IMF THE FULL RANGE OF POLICY ISSUES WHICH MUST BE TAKEN INTO ACCOUNT WHEN DECISIONS AND JUDGMENTS ARE MADE WITH RESPECT TO FINANCIAL SUPPORT AMONG MAJOR INDUSTRIAL COUNTRIES.

MEETING THE NEEDS OF THE DEVELOPING NATIONS

OF EQUAL IMPORTANCE IS OUR CONCERN FOR THE DEVELOPING COUNTRIES AND THE SMALLER INDUSTRIAL COUNTRIES. OF COURSE, UNCLASSIFIED

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IT IS TRUE THAT FOR THE DEVELOPING COUNTRIES IT IS ESSENTIAL THAT THE MAJOR INDUSTRIAL COUNTRIES MAINTAIN HEALTHY, GROWING EXONOMIES IN THE FACE OF THE OIL CRISIS. THE DEVELOPING COUNTRIES DEPEND ON THE INDUSTRIAL NATIONS TO TAKE A GROWING VOLUME OF THEIR EXPORTS AND TO CONTINUE ESSENTIAL CONCESSIONAL AID LEVELS. IF WE ESTABLISH A FACILITY WHICH WILL HELP ASSURE THE MAINTENANCE OF ECONOMIC ACTIVITY IN THE INDUSTRIAL COUNTRIES, WE ARE ASSISTING THE DEVELOPING COUNTRIES AS WELL. MANY OF THE DEVELOPING COUNTRIES HAVE COME TO DEPEND ON CONTINUED LARGE CAPITAL FLOWS TO SUPPORT THEIR RAPID ECONOMIC GROWTH. BY HELPING TO ASSURE ORDERLY ACCESS TO THE MAJOR CAPITAL MARKETS AND THEREBY REDUCING THE DANGER OF UNDUE COMPETITION FOR THE SURPLUS INVESTMENT FUNDS OF THE OIL EXPORTERS, THE ESTABLISHMENT OF A NEW FINANCIAL MECHANISM FOR INDUSTRIAL COUNTRIES WOULD ENHANCE THE ABILITY OF MANY DEVELOPING COUNTRIES TO ATTRACT THE LARGE AMOUNTS OF CAPITAL THEY NEED AND CAN PRODUCTIVELY EMPLOY. THESE COUNTRIES WILL ALSO BE ABLE TO MAKE APPROPRIATE USE OF THE RESOURCES OF THE IMF.

ONE GROUP OF DEVELOPING COUNTRIES--THOSE WITH THE LOWEST PER CAPITA INCOMES AND THOSE SERIOUSLY AFFECTED BY NATURAL DISASTERS AND OTHER PROBLEMS--WILL, HOWEVER, STILL REQUIRE CONCESSIONAL ASSISTANCE. WE AND OTHER DEVELOPED COUNTRIES HAVE BEEN REDIRECTING OUR CONCESSIONAL ASSISTANCE TOWARD THESE COUNTRIES AND URGING THE INTERNATIONAL FINANCIAL INSTITUTIONS TO DO THE SAME. WE ALSO LOOK TO THE OIL EXPORTERS TO PROVIDE A MAJOR PART OF THE ADDITIONAL CONCESSIONAL FUNDS NEEDED BY THESE COUNTRIES BECAUSE OF THE INCREASE IN OIL PRICES. THE ADDITIONAL AMOUNTS NEEDED BY THESE POOREST COUNTRIES--PERHAPS \$1.5 BILLION IN 1975--IS SMALL IN COMPARISON WITH THE OIL EXPORTERS' SURPLUSES. BUT ALTHOUGH RELATIVELY MODEST IN GLOBAL TERMS, THE SUMS INVOLVED BULK VERY LARGE FOR THE COUNTRIES CONCERNED BECAUSE NEEDS ARE THIS DESPERATE.

WE SHALL BE ADDRESSING THE PROBLEMS OF THESE COUNTRIES ON AN URGENT BASIS IN THE NEW DEVELOPMENT COMMITTEE WHERE WE SHALL KEEP THE AVAILABILITIES OF FUNDS UNDER CONTINUAL REVIEW AS WELL AS THE EFFORTS OF DEVELOPING COUNTRIES TO MAKE MAXIMUM EFFORTS TO USE AVAILABLE RESOURCES EFFECTIVELY. ONE WAY TO HELP THESE COUNTRIES WOULD BE TO ESTABLISH A UNCLASSIFIED

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TRUST FUND MANAGED BY THE IMF AND RECEIVING CONTRIBUTIONS FROM OPEC STATES AND FROM OTHER SOURCES. PERHAPS THE IMF ITSELF COULD CONTRIBUTE TO SUCH A FUND PROFITS DERIVED BY THE SALE IN THE PRIVATE MARKET OF THE SOME PORTION OF ITS GOLD HOLDINGS. A TRUST FUND OF THIS NATURE WHICH WOULD OFFER CREDIT AT RELATIVELY LOW COST--PERHAPS 2 TO 4 PERCENT AND ON MODERATELY LONG MATURITIES--WOULD PROVIDE FUNDS TO THOSE MOST SERIOUSLY AFFECTED ON TERMS WHICH ARE NOT APPROPRIATE FOR OTHER BORROWERS. WE HOPE THIS SUGGESTION WILL RECEIVE THE URGENT ATTENTION OF MINISTERS IN IMF INTERIM COMMITTEE AND IMF/IBRD DEVELOPMENT COMMITTEE.

#### COOPERATION WITH THE OPEC NATIONS

U. S. PROPOSALS FOR GREATER SOLIDARITY AMONG MAJOR INDUSTRIAL COUNTRIES IN NO SENSE STEM FROM ANY DESIRE FOR CONFRONTATION WITH THE OPEC NATIONS. WE RECOGNIZE AND SUPPORT THE LEGITIMATE ASPIRATIONS OF THESE NATIONS TO ACCELERATE THEIR OWN DEVELOPMENT, ESTABLISH THEIR INDUSTRIAL AND AGRICULTURAL BASES, AND TO IMPROVE THE LIVING STANDARDS OF THEIR PEOPLES TODAY AND IN THE YEARS TO COME.

WE HAVE ESTABLISHED JOINT COOPERATION COMMISSIONS WITH THE KEY OIL PRODUCERS IN THE MIDDLE EAST TO HELP THEM ACHIEVE THESE OBJECTIVES. WE HAVE UNDERTAKEN A MAJOR EFFORT WITHIN OUR GOVERNMENT TO PROVIDE THEM THE EXPERTISE WE HAVE ACHIEVED IN DEVELOPING THE ECONOMY OF OUR OWN COUNTRY AND TO HELP MAKE IT ADAPTABLE TO THEIR DEVELOPMENT PROGRAMS. I PERSONALLY VISITED A NUMBER OF COUNTRIES IN THE MIDDLE EAST LAST JULY TO LAUNCH THIS EFFORT AND INTEND TO RETURN SOON TO ENSURE ITS MOMENTUM. MY VISIT LAST SUMMER WAS FOLLOWED BY MEETINGS BOTH HERE AND IN THE MIDDLE EAST OF OTHER U.S. OFFICIALS, TECHNICIANS AND EXPERTS, WITH THEIR COUNTER-PARTS, WHICH HAVE PUT FLESH ON THE COMMISSION STRUCTURES THAT HAVE BEEN ESTABLISHED. WE ARE PREPARED TO CONTINUE TO DO WHAT WE CAN TO ACCELERATE THE ECONOMIC DEVELOPMENT OF OPEC NATIONS AND TO ENCOURAGE THE PRIVATE SECTOR OF OUR COUNTRY AND OTHER INDUSTRIAL COUNTRIES TO TAKE AN ACTIVE ROLE IN THIS PROCESS. IN THE MEANTIME, WE WILL CONTINUE TO PERMIT THESE COUNTRIES TO INVEST IN OUR MARKETS AND I AM CONFIDENT THEY WILL BE ALLOWED TO INVEST IN THE MARKETS OF OTHER NATIONS AS WELL.

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FOR THEIR PART THE OPEC COUNTRIES MUST RECOGNIZE THAT THEIR POSITION IN THE WORLD ECONOMY HAS ALREADY CHANGED DRAMATICALLY. THESE COUNTRIES WILL CONTINUE TO HAVE GREATER INFLUENCE IN THE WORLD EVEN WITH A SUBSTANTIAL FALL IN OIL PRICES. THESE COUNTRIES ARE NOW THE MAJOR SURPLUS COUNTRIES

OF THE WORLD, WITH A SURPLUS OF A MAGNITUDE UNPRECEDENTED IN HISTORY. IT IS VITAL TO THE MAINTENANCE OF A SOUND AND EQUITABLE WORLD ECONOMY THAT THEY ACCEPT, WITHOUT DELAY, THE RESPONSIBILITIES WHICH HAVE HISTORICALLY FALLEN UPON MAJOR CREDITOR COUNTRIES.

I HAVE SPOKEN ALREADY OF THEIR RESPONSIBILITIES FOR ASSISTING THE NEEDY OF THE WORLD. THEY MUST ALSO UNDERSTAND THAT THEIR FOREIGN INVESTMENTS CAN BE TREATED NO DIFFERENTLY FROM THE INVESTMENTS OF OTHERS. THEY CANNOT REALISTICALLY EXPECT THE REST OF THE WORLD TO DEVISE A SPECIAL SYSTEM OF GUARANTEES FOR THEM ALONE. IT IS ALSO ENCUMBENT UPON THEM TO SHED THE OUTMODED HABITS ACQUIRED WHEN THEY WERE DEVELOPING COUNTRIES WITH LIMITED RESOURCES. THE RESOURCES OF THIS GROUP OF COUNTRIES ARE ADEQUATE TO FINANCE THEIR LEGITIMATE DEVELOPMENT ASPIRATIONS, EVEN THOUGH THE SITUATION OF INDIVIDUAL OPEC COUNTRIES MAY DIFFER. THEIR EXCESS REVENUES THIS YEAR ALONE APPROXIMATE SIX TIMES THE FLOW OF DEVELOPMENT ASSISTANCE TO ALL DEVELOPING COUNTRIES LAST YEAR. THIS NEW REALITY MUST BE REFLECTED IN THE POLICIES OF OUR INTERNATIONAL FINANCIAL INSTITUTIONS.

IN MY CONVERSATIONS WITH OFFICIALS OF OPEC NATIONS, AND ON MY TRAVELS TO THE MIDDLE EAST, I HAVE FOUND THAT THERE IS WIDESPREAD UNDERSTANDING IN OPEC COUNTRIES OF THE RESPONSIBILITIES INHERENT IN THEIR NEW INTERNATIONAL ROLE. CERTAINLY LEADERS OF OPEC NATIONS ARE WELL AWARE OF THE IMPORTANT STAKE THEY HAVE IN A HEALTHY WORLD ECONOMIC SYSTEM. I REMAIN CONFIDENT THAT A BASIS CAN BE FOUND FOR THE INDUSTRIAL NATIONS OF THE WORLD TO CONTINUE TO WORK CONSTRUCTIVELY WITH OPEC NATIONS.

OF COURSE, THEY MUST RECOGNIZE THAT WE CONTINUE TO BE STRONGLY OPPOSED TO THE ACTIONS THEY HAVE TAKEN TO COMPEL A MASSIVE TEMPORARY TRANSFER OF RESOURCES -- REAL AND FINANCIAL TO THEM FROM THE REST OF THE WORLD. WE BELIEVE THEY CAN ACHIEVE THEIR DEVELOPMENT OBJECTIVES ON A MORE SECURE BASIS AT A SUBSTANTIALLY LOWER LEVEL OF OIL PRICES.

THEY MUST RECOGNIZE, TOO, THAT EACH PASSING DAY TAKES US  
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A STEP FURTHER AWAY FROM AN OPTIMAL UTILIZATION OF THE WORLD'S RESOURCES, AS OTHER NATIONS REVISE THEIR POLICIES TOWARD RELIANCE ON OIL IMPORTS. CERTAINLY, THERE IS EVEN NOW NO POSSIBILITY THAT OIL CONSUMING COUNTRIES CAN RETURN TO THE ENERGY PRACTICES OF TWO YEARS AGO. BUT THE FULL SCOPE OF CONSUMING COUNTRY REACTION IS NOT YET DEFINED, AND THE HOPE REMAINS THAT REASONABLE MEN CAN FIND RATIONAL SOLUTIONS.

WE REMAIN PERSUADED THAT EXTREME POLICIES WILL, IN TIME, PROVE VERY HARMFUL TO THE BASIC ECONOMIC AND SOCIAL ASPIRATIONS OF THESE NATIONS, AND THAT THERE IS A SOLID FOUNDATION FOR REACHING AGREEMENT ON A CONSTRUCTIVE RESOLUTION OF THIS ISSUE. GREATER COOPERATION AMONG THE WORLD'S INDUSTRIAL COUNTRIES



ALONG THE LINES THAT SECRETARY KISSINGER AND I HAVE SET FORTH  
LAST WEEK AND TODAY WILL HELP ESTABLISH THE BASIS FOR SUCH  
AGREEMENT.

CONCLUSION

IN THEIR OWN INTEREST, AND IN THE INTEREST OF THE WORLD  
AS A WHOLE, THE TIME HAS NOW COME WHEN THE MAJOR INDUSTRIAL  
NATIONS MUST GRASP THE NETTLE. THE EVIDENCE BEFORE US -- OF  
RAPID INFLATION AND ECONOMIC STAGNATION -- OFFERS BLEAK  
ENCOURAGEMENT FOR THE FUTURE UNLESS WE NOW TAKE DECISIVE  
COLLECTIVE ACTION TO BREAK THE PRESENT TRAIN OF EVENTS. WE  
MUST ACT TOGETHER TO LIMIT OUR DEPENDENCE ON IMPORTED OIL AND  
TO PROMOTE OUR MUTUAL ECONOMIC AND FINANCIAL SOLIDARITY. SUCH  
ACTION WILL INEVITABLY BE CARRIED OUT THROUGH DECISIONS AND  
ACTIONS OFTEN APPEARING TO BE TECHNICAL IN NATURE AND LIMITED  
IN SCOPE. BUT UNDERLYING ALL OF WHAT WE DO MUST BE A SOLID  
FOUNDATION OF COMMITMENT -- A POLITICAL CONSENSUS THAT WE  
WILL ACT TOGETHER TO DETERMINE OUR OWN DESTINY -- AND A MUTUAL  
FAITH THAT WE CAN DO SO. WE MUST MAINTAIN OUR COMMITMENT TO  
EXPANDING TRADE AND FOREIGN INVESTMENT. WE ARE TOO FAR  
DOWN THE ROAD TO INTERDEPENDENCE TO LOOK BACK. WE HAVE IT  
IN OUR POWER TO CHOOSE WHETHER WE ARE PRISONERS OF A HISTORY  
YET TO BE WRITTEN OR THE ARCHITECTS OF A FUTURE YET TO BE  
SEEN. I HAVE NO DOUBT WHAT OUR CHOICE WILL BE. WE KNOW  
WHAT THE REQUIRED INTERNATIONAL RESPONSE MUST BE. UNQUOTE  
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